Payroll, Employment and Deductions

Personal Finance 30

**1. What is Payroll?**

In a [company](http://en.wikipedia.org/wiki/Company), payroll is the sum of all [financial](http://en.wikipedia.org/wiki/Financial) records of [salaries](http://en.wikipedia.org/wiki/Salary) for an employee, [wages](http://en.wikipedia.org/wiki/Wage), bonuses and [deductions](http://en.wikipedia.org/wiki/Tax_deduction). Payroll is crucial because payroll and payroll taxes considerably affect the net income of an individual. In Canada payroll rules are administered and set out by the Government of Canada and the Canada Revenue Agency.

**2. How Payroll Works**

For an employer the following is done in order for you to complete your pay cheque.

1. The employer will calculate your gross pay.
2. The employer will deduct the amounts that need to be taken away from your cheque. These are called deductions. The employer keeps them in a holding account and unless you are self-employed or contracted, will send those amounts to the Canadian Revenue Agency.
3. The employer will calculate your net pay, and prepare a cheque for you. This amount is called your **NET PAY.**

**3. What Are The Deductions That Are Taken Off of My Cheque?**

All employers must deduct the following off of an employee’s cheque:

* Canada Pension Plan (CPP)
* Employment Insurance (EI)
* Income Tax (IT)

The guidelines and amounts that are taken off of your cheque are based on your age and your annual gross pay amount. We will look at each deduction in depth.

**Canada Pension Plan**

Almost all individuals who work in Canada [contribute to the Canada Pension Plan (CPP)](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/contributions/index.shtml). The CPP provides pensions and benefits when contributors retire, become disabled, or die. There are many different benefits that the Canada Pension Plan Provides, they include:

* [**Retirement pension**](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/retirement/index.shtml)  
  You can apply for and receive a full CPP retirement pension at age 65 or receive it as early as age 60 with a reduction, or as late as age 70 with an increase.
* [**Post-retirement benefit**](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/prb/index.shtml)  
  If you continue to work while receiving your CPP retirement pension, your CPP contributions will go toward post-retirement benefits, which will increase your retirement income.
* [**Disability benefits**](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/disability/index.shtml)  
  If you become severely disabled to the extent that you cannot work at any job on a regular basis, you and your children may receive a monthly benefit.
* [**Survivor benefits**](http://www.servicecanada.gc.ca/eng/services/pensions/after-death.shtml)  
  When you die, CPP survivor benefits may be paid to your estate, surviving spouse or common-law partner and children.
* [**Pension sharing**](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/retirement/sharing.shtml)  
  Married or common-law couples in an ongoing relationship may voluntarily share their CPP retirement pensions.
* [**Credit splitting for divorced or separated couples**](http://www.servicecanada.gc.ca/eng/services/pensions/cpp/credit-split.shtml)  
  The CPP contributions you and your spouse or common-law partner made during the time you lived together can be equally divided after a divorce or separation.

**Employment Insurance**

Employment Insurance (EI) provides temporary financial assistance to unemployed Canadians who have lost their job through no fault of their own, while they look for work or upgrade their skills.

Canadians who are sick, pregnant, or caring for a newborn or adopted child, as well as those who must care for a family member who is seriously ill with a significant risk of death or who must provide care or support to their critically ill or injured child may also be assisted by Employment Insurance. In 2013 you will contribute 1.88% of your gross pay to a maximum of 47 400.00. In addition to this your employer will also have to contribute 1.4 times the deducted amount. There is no age limit for contributing to Employment Insurance.

**Income Tax**

An employer or payer, are responsible for deducting income tax from the remuneration or other income you pay.

There is **no age limit** for deducting income tax and there is **no employer contribution required**. Income tax makes up the majority of revenues from the government. Here is where all of the money is taken in and distributed amongst the many different areas of government. The rates change based on your annual gross pay!

**How Does The Government Find Out Your Information For Deductions?**

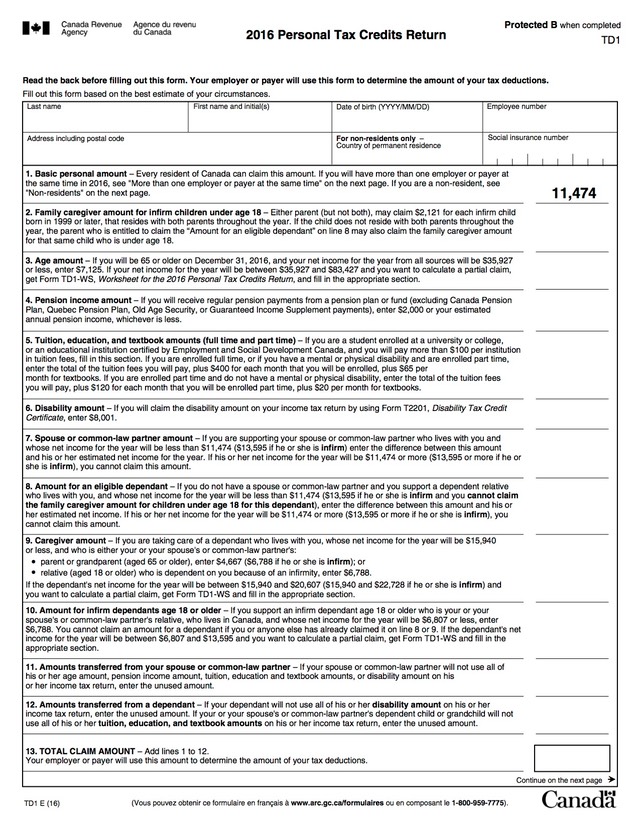
**Social Insurance Number**

The Social Insurance Number (SIN) is a nine-digit number that you need to work in Canada or to have access to government programs and benefits. This number is what identifies for everything that deals with the government. From tax returns to collecting EI Benefits, all will be assigned using this number.

[**TD1, Personal Tax Credits Return**](http://www.cra-arc.gc.ca/formspubs/frms/td1-eng.html)

[TD1, Personal Tax Credits Return](http://www.cra-arc.gc.ca/formspubs/frms/td1-eng.html), is a form used to determine the amount of tax to be deducted from an individual's employment income or other income, such as pension income.

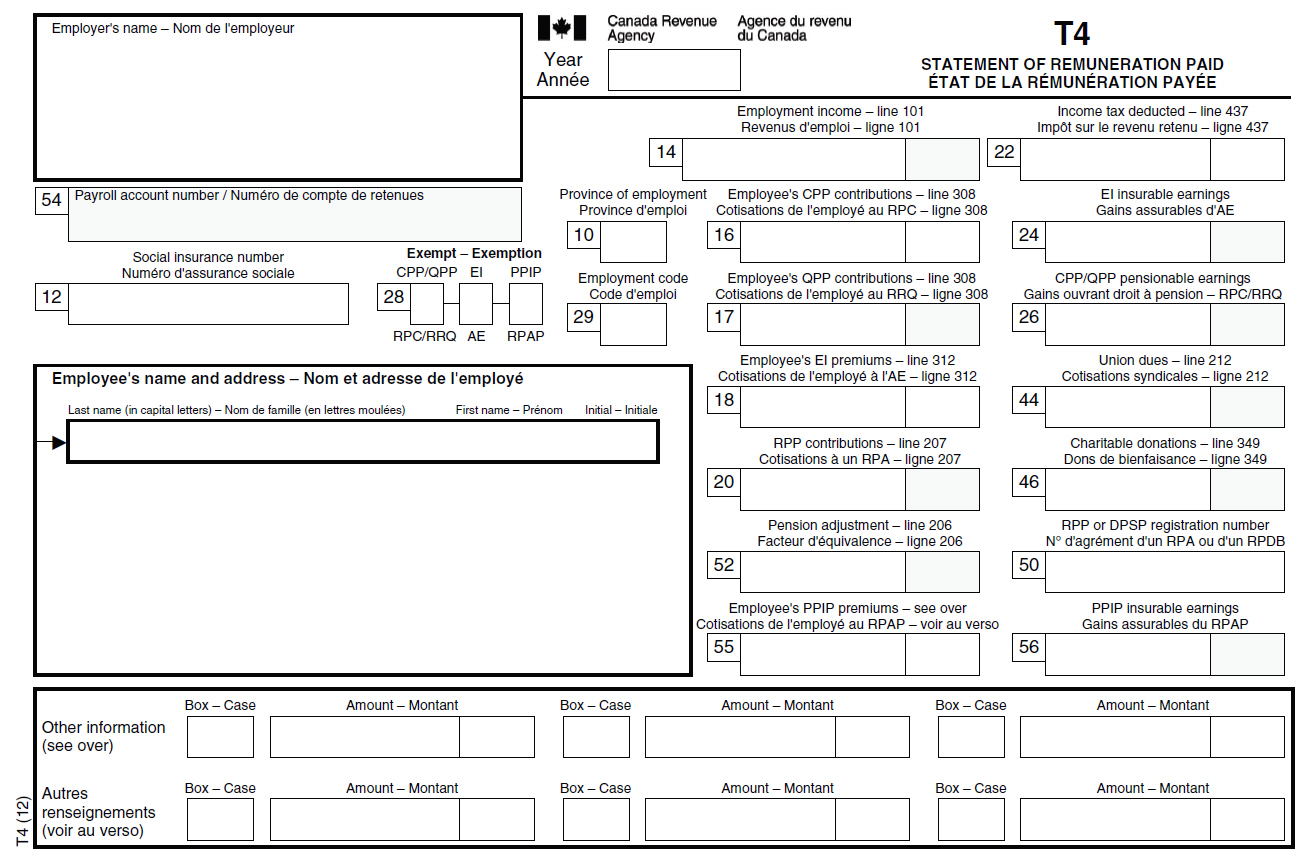
There are federal and provincial/territorial TD1 forms. Individuals complete the forms and give them to their employer or payer who should keep the completed forms with their records. A copy of the form is attached below.



**T4 Information Slips**

A Canadian T4 tax slip, or Statement of Remuneration Paid, is prepared and issued by an employer to tell you and the [Canada Revenue Agency (CRA)](http://canadaonline.about.com/od/personalincometax/g/canada-revenue-agency.htm) how much employment income you were paid during a tax year and the amount of income tax that was deducted. Employment income includes salary, bonuses, vacation pay, tips, honorariums, commissions, taxable allowances, the value of taxable benefits and payment in lieu of notice.

You usually receive three copies of a T4 tax slip - one to attach to your Canadian federal tax return, one to attach to your provincial or territory tax return and one to keep for your own records. You also may receive more than one T4 tax slip if you had more than one job.

T4 tax slips must be issued by the last day of February the year after the calendar year to which the T4 tax slips apply.

**Record of Employment**

A Record of Employment (ROE) provides information on employment history. It is the single most important document used by employees in establishing a claim for Employment Insurance (EI) benefits.

Service Canada uses the information on the ROE to determine whether a person is eligible to receive EI benefits, what the benefit amount will be, and for how long the benefits will be paid. An additional use of the ROE is to ensure that no one misuses EI funds or receives benefits in error. Service Canada keeps ROEs for 11 years.

Anytime you leave a position whether you were fired, quit or laid off you should receive a Record of Employment.

